

INITIAL STATEMENT OF REASONS  
OVERVIEW/NON-CONTROLLING SUMMARY

PROPOSED REGULATION 1535, RACE HORSE BREEDING STOCK

Proposed Regulation 1535 is proposed to be promulgated to interpret and explain the partial exemption from tax of the sale and use of racehorse breeding stock. The proposed regulation has an operative date of September 1, 2001.

**Specific Purpose**

The purpose of the proposed regulation is to interpret, implement, and make specific Revenue and Taxation Code section 6358.5. This regulation is necessary to provide guidance to taxpayers affected by this statute.

**Factual Basis**

Proposed Regulation 1535 discusses the partial exemption from tax for sales and purchases of racehorse breeding stock. It provides definitions of terms used in the statute and clarification of administrative terms.

Subdivision (a) explains the history of state tax rate increases and decreases in the last two years due to the operation of Revenue and Tax Code sections 6051.4 and 6201.4. Subdivision (b) provides definitions, supplied by industry representatives, of terms used in the statute that are essential to administering the provisions of the partial exemption as set forth in RTC section 6358.5. Subdivisions (c) through (e), derived from equivalent language in Regulations 1533, 1533.1 and 1533.2 that implement other partial exemptions enacted as part of AB 426, explain the use of partial exemption certificates and provide a refund process for those persons who paid the tax covered by the partial exemption during the period between the operative date and effective date of the statute. Subdivision (f) & (g) make specific the provisions of section 6421 to provide that if the property is used in a manner not qualifying for the partial exemption the purchaser is liable for the payment of sales tax just as if he were a retailer making the sale. Subdivision (h) provides that leases of tangible personal property which are classified as “continuing sales” and “continuing purchases” qualify for the racehorse breeding stock partial exemption subject to all the conditions and limitations set forth in the regulation. Subdivision (i) applies to the partial exemption the provisions of section 7053, which requires that adequate and complete records must be maintained by the qualified person as evidence that the qualified property was capable of reproduction and purchased by the qualified person solely for breeding purposes. Subdivision (j) recites the statutory operative date of September 1, 2001.

Pursuant to Government Code section 11346.5(a)(8), the Board of Equalization finds that the adoption of the proposed amendments will not have a significant adverse economic impact on private businesses or persons. The amendments are proposed to interpret, implement, and make specific the authorizing statutes in the context covered by the regulation for greater ease of understanding and to conform the regulation to recent legislation. These changes will clarify the interpretation or administration of the sales and use tax laws. Therefore, the Board has determined that these changes will not have a significant adverse economic impact on private businesses or persons.